April 9, 2013

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION
COMMERCIAL PAPER PROGRAM
(ALL DISTRICTS – 3 VOTES)**

SUBJECT

At the direction of the Treasurer and Tax Collector, the Los Angeles County Capital Asset Leasing Corporation (the "Corporation") periodically issues short-term commercial paper notes (the "Notes") to finance capital construction costs for the County. Over the past fifteen years, the Commercial Paper Program (the "Program") has provided a cost-effective and flexible financing mechanism for the County to fund the initial stages of its capital construction projects. The current Program has a short-term lease-revenue financing structure and includes four separate bank Letters of Credit (LOC), which provide credit enhancement and liquidity support for the outstanding Notes. With the current Program set to expire on April 26, 2013, we are requesting that your Board approve a restructuring of the Program, which will include a new syndicate of three LOCs and one revolving credit facility. In addition, we are also requesting an increase in the maximum principal amount authorized for the Program from $400,000,000 to $600,000,000. The restructured Program will include three LOC banks supporting a maximum principal amount of $450,000,000 and one bank revolving credit facility with a maximum principal amount of $150,000,000. In spite of the increased size of the Program, a reduction in bank fees negotiated by the Treasurer and Tax Collector is expected to reduce annual costs by more than $1 million. The restructured Program will continue to provide a critical low-cost source of funding to finance the initial capital expenditures of Board approved projects.

IT IS RECOMMENDED THAT YOUR BOARD:

Adopt the Resolution authorizing the execution and delivery of legal documents related to a restructuring of the Los Angeles County Capital Asset Leasing Corporation Commercial Paper Program in order to provide for the issuance of lease-revenue commercial paper notes and the issuance of notes through a revolving credit facility in an aggregate principal amount not to exceed $600,000,000, and approving additional actions with respect thereto.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On June 24, 1997, your Board authorized a lease-revenue Program to replace an existing Bond Anticipation Note program. The Program has been very successful in providing cost-effective short-term financing for the County to fund essential Board approved capital projects during the initial construction phase. The flexibility of the Program allows the County to avoid the cost of capitalized interest before a project is operational and to facilitate a long-term financing solution that will more effectively allocate the cost of a project over its useful life. Some of the County's high-profile capital projects previously funded or currently being funded through the Program include the LAC+USC Medical Center, Harbor-UCLA Medical Center Surgery/Emergency Room, the new MLK Hospital inpatient tower, and various other health, public safety, and general government facilities.

The current $400,000,000 Program, which is scheduled to terminate on April 26, 2013, was established through an RFP process and approved by your Board in April 2010. The Program is supported by four separate series of LOCs issued by JP Morgan Chase (Series A - $175,000,000), Bank of America (Series B - $75,000,000), Wells Fargo (Series C - $75,000,000) and Union Bank (Series D - $75,000,000). There are currently $288,700,000 of Notes outstanding, which are expected to be re-issued under the restructured Program.

On December 14, 2012, a new RFP was issued to solicit proposals from qualified banks to provide direct-pay LOCs or other alternative products to provide credit enhancement and liquidity support for the restructured Program, which will need to be implemented by April 26, 2013. Montague DeRose and Associates was hired as the Financial Advisor to assist the County with the RFP process and the restructuring of the Program. Hawkins, Delafield & Wood was selected as Note Counsel. As a requirement of the RFP process, Chapman & Cutler LLC was hired as Bank Counsel to represent the successful respondent banks in developing consistent terms and conditions in the legal documents. A total of ten bank proposals were received in response to the RFP.

In order to meet the County's expanding capital project needs, the maximum principal amount of Notes authorized under the restructured Program will increase from $400,000,000 to $600,000,000. The additional Program capacity will provide the County with greater flexibility in the timing of long-term bond issuances, the proceeds of which will be used to redeem outstanding Notes. The additional capacity in the restructured Program will continue to be secured by the same portfolio of County real property assets, as defined in the Lease and Sublease by and between the County and the Corporation.

The $600,000,000 maximum principal amount authorization for the Program will consist of $450 million of direct-pay LOCs allocated among three banks, and a $150 million revolving credit facility with Bank of America. The three banks providing the direct-pay LOCs and their corresponding annual fees include: Wells Fargo ($200 million @ 60 basis points), U.S. Bank ($100 million @ 60 basis points) and JP Morgan ($150 million @ 54 basis points). Wells Fargo and U.S. Bank will provide credit support for “traditional” commercial paper (CP), which is an identical product to the CP issued under the current Program. JP Morgan will provide credit support for “Callable” CP, which is a minor variation of the CP issued under the current Program. The annual fees for the Bank of America revolving credit facility include 30 basis points for the unutilized portion of the facility, and a “benchmark” variable rate for the utilized portion based on 75% of the London Interbank Offered Rate (LIBOR) + 55 basis points.

The new Program will continue to issue the vast majority of the Notes as tax-exempt. However, the financing documents for the new Program will provide the authority to issue separate series of taxable Notes and 501(c)(3) eligible Notes as part of the $600,000,000 maximum principal authorization. The ability to issue taxable and 501(c)(3) eligible Notes will provide added flexibility to fund certain capital expenditure needs of the County that may not otherwise be eligible to be funded through tax-exempt financing, such as costs related to the new MLK Hospital inpatient tower.

Implementation of Strategic Plan Goals

This action supports the County’s Strategic Plan Goal #2: Fiscal Sustainability by providing a flexible and cost-effective source of financing to fund the capital construction needs of the County.

FISCAL IMPACT/FINANCING

The Program has provided the County with a highly flexible and cost-effective funding source to finance the early phases of capital construction projects. Since the inception of the Program in 1997, the average coupon rate on outstanding Notes used to finance various projects is only [1.60%]. With short-term interest rates at historical lows, the County is financing the $288,700,000 of currently outstanding Notes at an average rate of [0.19% in Fiscal Year 2012-13]. Both the historical and year-to-date coupon rates on outstanding Notes compare very favorably to the cost of capital on a long-term bond financing. In October 2012, the County issued $339,410,000 of long-term lease-revenue bonds (the "Bonds") to finance capital projects that were initially funded by the Program. The Bonds, with a final maturity in 2043, were sold at an all-in borrowing cost of 3.95%.

The program also enables the County to avoid paying capitalized interest during the construction phase of a project, or prior to the time a capital asset is placed into service. For capital projects financed through the issuance of long-term-bonds, capitalized interest can add an additional 20% to 30% to the final cost of the project. Upon completion of a capital project funded through the Program, the County will generally initiate a "take-out" financing involving the issuance of long-term bonds to allocate the cost of capital over the useful life of the project; and to free up capacity in the Program to fund new capital projects.

As a reflection of the improved stability in the financial markets and more favorable conditions in the LOC market, the County will realize significant savings in LOC and bank facility fees to provide credit enhancement and liquidity support for the restructured Program. Despite a fifty-percent increase in the maximum Program capacity from $400,000,000 to $600,000,000, the County should save more than $1,000,000 in annual LOC and bank facility fees when compared to the current Program. All of the other administrative costs required to manage the restructured Program are expected to remain relatively unchanged from the current Program. In addition to the annual LOC and bank facility fees, and the ongoing administrative costs over the three-year term of the restructured Program, the County will incur one-time start-up costs in the estimated amount of [$400,000] for legal, financial advisory, title insurance and rating agency fees.

Since commercial paper is a short-term variable rate debt instrument, the interest rate on outstanding Notes will reflect the market rate at the time of issuance and all subsequent rollover dates for the issued Notes. The Chief Executive Office conservatively estimates interest costs for the Notes in its budgetary projections to account for the possibility of an increase in short-term interest rates and will continue to appropriate sufficient funds on an annual basis to cover all administrative and interest costs for the new CP Program.

In the event that the restructured Program or an alternative financing solution is not approved by your Board, the current Program will terminate and the County will need to identify at least $288,700,000 of General Fund budget and cash resources to redeem the outstanding Notes by April 26, 2013.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Notes for the new CP Program will continue to be issued through the Corporation, a non-profit public benefit corporation created by this Board in 1983 to assist the County in financing the purchase of necessary equipment and the acquisition, purchase and construction of County buildings and facilities.

The restructured Program will consist of four separate bank agreements authorizing the issuance of separate series of Notes by each bank up to a maximum aggregate principal amount of $600,000,000. The maximum principal amount of the Notes will be allocated among the four LOC providers as follows:

- JP Morgan Chase $150,000,000
- Wells Fargo $200,000,000
- U.S. Bank $100,000,000
- Bank of America $150,000,000

The Program will continue to be secured by a lease-revenue financing structure involving a Site Lease and Sublease by and between the County and LAC-CAL. In the lease-revenue structure of the current CP Program, the County has pledged twenty-five (25) real estate assets (the "Properties") as collateral for the Notes. The restructured Program will require a restated Site Lease and Sublease with minimal changes from the current documents. However, as a result of an increase in the aggregate appraised value of the Properties, the County will be able to increase the maximum principal amount of the LOCs without having to pledge additional assets to support the County's expanded capital construction needs. The new Program will continue to provide the County with the flexibility to substitute and/or remove real estate assets into and out of the lease structure to accommodate the changing needs of the capital construction program.

The restructured Program was approved by the LAC-CAL Board on March 12, 2013. [The Note dealers for the current Program (Barclays Capital, JP Morgan and Morgan Stanley) will continue to serve as Note dealers for the restructured Program.] The Resolution provides the authority to replace or contract with additional Note dealers at the discretion of this Department to facilitate the successful operation of the restructured Program.

As part of the authorization to establish the new CP Program, your Board is requested to approve the "form of" the following financing documents, which are provided as Exhibits to the Resolution:

- Exhibit A-1 [Bank of America Letter of Credit and Reimbursement Agreement]
- Exhibit A-2 [JP Morgan Chase Letter of Credit and Reimbursement Agreement]
- Exhibit A-3 [US Bank Letter of Credit and Reimbursement Agreement]
- Exhibit A-4 [Wells Fargo Letter of Credit and Reimbursement Agreement]
- Exhibit B [Restated Site Lease]
- Exhibit C [Restated Sublease]

<u>IMPACT ON CURRENT SERVICES (OR PROJECTS)</u>

Approval of the restructured Program will provide the County with a continued source of highly flexible and cost-effective financing for the capital construction program. In the event the restructured Program is not approved by your Board, the County will need to fund existing capital construction projects with available cash resources and/or secure alternative and higher-cost sources of financing.

CONCLUSION

Upon approval of the Resolution, it is requested that the Executive Officer of the Board of Supervisors return two originally executed copies of the adopted Resolution to the office of the Treasurer and Tax Collector.

Respectfully submitted,

MARK J. SALADINO
Treasurer and Tax Collector

MJS:GB:DB:JP:JW

Attachments ( )

C: Chief Executive Officer
County Counsel
Executive Officer, Board of Supervisors
Auditor- Controller